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C O N F I D E N T I A L CARACAS 002363

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TAGS: ECON ETRD ENRG EINV VE BR

SUBJECT: LULA: TOUCH AND GO IN CARACAS TO DISCUSS TRADE
IMBALANCE

REF: A. 2006 CARACAS 03561

1B. CARACAS 01816

Classified By: ECONOMIC COUNSELOR ANDREW BOWEN, FOR REASON 1.4 (D)

11. (U) SUMMARY: Brazilian President Lula Da Silva, accompanied by approximately 130 Brazilian business leaders paid a five-hour visit to Caracas on December 13, and met with President Chavez and other senior BRV officials. Nine agreements were signed in the areas of health, agriculture, energy, industry and food. Brazilian presidential spokesman, Marcelo Baumbach, stated the focus of the meeting was on commercial trade and finding ways to make trade more balanced. Chavez said that he was not concerned about the current trade imbalance. From January to October 2007, Brazil sold USD 3.8 billion of goods to Venezuela while Venezuela sold just USD 296 million of goods to Brazil. END SUMMARY.

Meetings every three months

12. (U) During the meeting the two leaders formalized agreements reached September 20, in Manaus, Brazil. Agreements signed included the provision of GOB technical assistance to strengthen BRV food safety and inspection, programs to improve sanitary controls for Venezuelan food production, exchange programs for public health, and Brazilian technical assistance for the production of coffee, citrus fruits and yucca. There was also a petrochemical agreement to establish a joint company in Venezuela to produce plastic resins. Supplementary agreements to further the construction of two hydro electric projects in Uribante-Caparo, Venezuela were also signed. An agreement was also signed on moving forward with the Petrobras-PDVSA USD 2.5 billion Abreu de Lima joint oil refinery construction project, located in Pernambuco, Brazil, which is scheduled for completion in 2010. Chavez also proposed creating a joint investment fund in 2008 but no details were provided. Lula and Chavez are scheduled to meet again in Pernambuco in March 2008.

Presidents' Remarks

13. (SBU) Lula underscored the obligation of wealthier South American countries to help smaller and weaker countries. He also emphasized his goal of improving Venezuela's bilateral trade balance with Brazil. According to ABN, the BRV news agency: from January to October 2007, Brazil sold USD 3.8 billion of goods to Venezuela; an increase of 29 per cent

from the previous year. During the same period, Venezuela only sold USD 296 million of goods to Brazil; a decrease of 44 percent from the previous year. Lula also reiterated his support for Venezuela's full Mercosur membership. Chavez stressed South America unity: "We are molding a South American Pole, a body of strength, a body of knowledge, a political force." He added that he was not concerned about the current trade imbalance with Brazil and that it would eventually improve once Venezuela started shipping crude to the Pernambuco refinery.

¶4. (C) Comment: The lucrative Venezuelan market continues to grow for Brazil (Ref A), and provides Lula with ample incentive to maintain friendly relations with the mercurial Chavez. This may be the reason PDVSA and Petrobras were able to reach an agreement for the joint refinery project in Pernambuco despite previous reports that negotiations had stalled. The Brazilian Ambassador to Venezuela had previously predicted that Brazil will shortly eclipse Colombia as Venezuela's second largest trading partner after the US (Ref B).

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